Institutional transformation and system change: changes in corporate governance of German corporations

Lane, Christel

65

Reihe Soziologie

Sociological Series

Institutional Transformation and System Change: Changes in Corporate Governance of German Corporations

Christel Lane

65

Reihe Soziologie

Sociological Series

Institutional Transformation and System Change: Changes in Corporate Governance of German Corporations

Christel Lane

June 2004

Institut für Höhere Studien (IHS), Wien
Institute for Advanced Studies, Vienna

Contact:

Michael Jonas
☎: +43/1/599 91-212
email: jonas@ihs.ac.at

Founded in 1963 by two prominent Austrians living in exile – the sociologist Paul F. Lazarsfeld and the economist Oskar Morgenstern – with the financial support from the Ford Foundation, the Austrian Federal Ministry of Education, and the City of Vienna, the Institute for Advanced Studies (IHS) is the first institution for postgraduate education and research in economics and the social sciences in Austria. The **Sociological Series** presents research done at the Department of Sociology and aims to share "work in progress" in a timely way before formal publication. As usual, authors bear full responsibility for the content of their contributions.

Das Institut für Höhere Studien (IHS) wurde im Jahr 1963 von zwei prominenten Exilösterreichern – dem Soziologen Paul F. Lazarsfeld und dem Ökonomen Oskar Morgenstern – mit Hilfe der Ford-Stiftung, des Österreichischen Bundesministeriums für Unterricht und der Stadt Wien gegründet und ist somit die erste nachuniversitäre Lehr- und Forschungsstätte für die Sozial- und Wirtschafts-wissenschaften in Österreich. Die **Reihe Soziologie** bietet Einblick in die Forschungsarbeit der Abteilung für Soziologie und verfolgt das Ziel, abteilungsinterne Diskussionsbeiträge einer breiteren fachinternen Öffentlichkeit zugänglich zu machen. Die inhaltliche Verantwortung für die veröffentlichten Beiträge liegt bei den Autoren und Autorinnen.

Abstract

This paper examines the many changes which have transformed the German system of corporate governance during the last seven odd years. It concludes that it is in the process of converging towards the Anglo-American model and that this has fundamentally affected the way strategic decisions are made in firms. Convergence is not seen as a functional necessity, nor is it viewed as inevitable.
The transformation in capital markets and the rise to dominance of the notion of shareholder value is particularly affecting large international and quoted firms but is gradually spreading also to other parts of the economy. This transformation is affecting labour and industrial relations in negative ways, as well as posing a threat to the German production model of diversified quality production.
The paper offers both a theoretical exploration of institutional and system transformation and an empirical study which substantiates the theoretical position taken with evidence about recent trends in capital markets, banks, government and firms. Evidence from the pharmaceutical/chemical industry is supplemented by data on firms in other sectors, including the financial sector.
The theoretical examination of institutional change focuses on the notions of system logic, institutional complementarity, functional conversion and hybridisation. It examines both external sources of change and internal powerful actors who promote the process of transformation. The notions of hybridisation of the German business system, as well as claims about functional conversion and the evolution of a new complementarity, are rejected in favour of a trend towards convergence.

Zusammenfassung

Im Zentrum der Abhandlung stehen Veränderungsprozesse, die das deutsche System der Corporate Governance in den vergangenen sieben Jahre transformiert haben. Es wird argumentiert, dass es sich in einem Prozess der Anpassung an das anglo-amerikanische System befindet und dass dieser Wandel die Wege strategischer Entscheidungsfindung in privatwirtschaftlichen Unternehmen fundamental beeinflusst.

Die Veränderungen der Kapitalmärkte und die Durchsetzung des Shareholder-Value-Prinzips beeinflussen nicht nur große internationale Unternehmen, sondern greifen auch auf andere Teile der Wirtschaft durch. Diese Transformationen wirken sich sowohl auf der Ebene der Arbeitsbeziehungen als auch auf der Ebene der industriellen Beziehungen negativ aus und bedrohen das deutsche Modell diversifizierter und qualitativ hochwertiger Produktion.

Derzeitige Veränderungsprozesse in den Kapitalmärkten, den Banken, den Governance-Systemen und den Unternehmen werden sowohl mit Hilfe eines theoretischen

Erklärungskonzeptes institutioneller und systemischer Transformation als auch mit Hilfe einer empirischen Rückbindung des Konzeptes analysiert. Die im Vordergrund stehenden Ausführungen über Entwicklungstrends in der chemisch-pharmazeutischen Industrie werden mit Daten aus Unternehmen anderer Sektoren sowie aus dem Finanzsektor angereichert.

Das theoretische Konzept institutionellen Wandels zielt auf die Erklärung der Systemlogik, der institutionellen Komplementarität, sowie der funktionalen Konversion und Hybridisierung ab. Hierbei werden sowohl systemexterne Wandlungsfaktoren als auch systeminterne handlungsmächtige Akteure berücksichtigt, die den Transformationsprozess voran treiben. Wie heraus gearbeitet wird, lässt sich der beobachtete Wandel weder mit dem Verweis auf die Bedeutung der Hybridisierung des Unternehmenssystems noch mit dem Verweis auf Anforderungen erklären, die sich aus Prozessen funktionaler Konversion und der Evolution einer neuartigen komplementären Konversion ergeben. Vielmehr lässt sich der Wandel als Anpassungsprozess des deutschen Systems der Corporate Governance analysieren.

Keywords

Corporate governance, institutional change, capital markets, varieties of capitalism, German coordinated market economy, industrial relations.

Schlagwörter

Corporate Governance, institutioneller Wandel, Kapitalmärkte, Produktionsregime, koordinierte Marktwirtschaft, Industrielle Beziehungen

Christel Lane was visiting Professor at the Department of Sociology of the Institute for Advanced Studies from May 11-12, 2004.

Contents

II THEORETICAL CONSIDERATIONS 4

II 1 Approaches to corporate governance ... 4

II.2 Analysis of institutional persistence and change. ... 5

III REVIEW OF EMPIRICAL EVIDENCE 9

III.1 Historical sketch of the German financial system and form of corporate governance. ... 9

III.2 Recent institutional changes in the German financial system and system of corporate governance. ... 11

III.2.1 Sources and promoters of change ... 11

III.2.2 Changes in capital markets ... 13

III.2.3 Changes within firms ... 14

III.3 Persistence of the German model ... 17

III.4 Balance of change and persistence: hybridisation? ... 18

III.5 Pressures for system convergence ... 23

IV CONCLUSIONS 25

REFERENCES 29

I. INTRODUCTION

After the collapse of state socialism, the focus of debate in the social sciences came to rest on differences within the capitalist world between different models of capitalist organisation. Just ten years on, the debate has shifted further, and there are now being voiced both triumphant claims and fears that one model of capitalism – that of competitive or liberal market capitalism – might be displacing all others. The fundamental and long-established differences between what has come to be known as organised or co-ordinated market economies and competitive or liberal market economies are said to be in the process of erosion.

This new debate has focused on changes in capital markets, corporate financing and their implications for corporate governance - institutions widely held to be cornerstones of models of capitalism. Corporate governance may be loosely defined as all those rules and arrangements structuring the exercise of control over company assets and the pattern of interaction between different stakeholders. Financial systems influence the allocation and use of capital (in the forms of shares) and shape modes of corporate governance. Forms of corporate governance, in turn, structure most other relationships within firms and even in society as a whole, as they are inherently connected with a redistribution of power and material welfare. In contrast to Deeg (this volume), I therefore view both as key institutions which decisively shape the logic of the whole political economy. Hence, there is strong concern, particularly but not only on the part of labour, with the consequences of any processes of change from the model of 'co-ordinated' to that of a 'liberal market' economy for the redistribution of surplus and control to various stakeholders in the firm.

Transformation of corporate governance has been most pronounced in coordinated market economies, and the impetus for and advocacy of change have come chiefly from the US (O'Sullivan 2000). As Germany long has been portrayed as the paradigm case of coordinated capitalism (Hall and Soskice 1999; Deeg 2001), with many built-in institutional obstacles to erosion, debate around the German case is of particular interest. If the hitherto very cohesive German system can be shown to be in the process of fundamental change, then other continental European business systems also may be vulnerable.

The processes of change which can be empirically observed have initiated a fresh debate on institutional transformation and how it might best be conceptualised. In particular, it is being debated whether the changes in corporate governance signal radical system transformation and a process of convergence, or whether they can be absorbed into the existing institutions of a coordinated market economy by processes of institutional adaptation. Four positions may be distinguished in this debate: an argument for system transformation and convergence; claims for system persistence, albeit with partial adjustment of the old model; a diagnosis positing the emergence of a hybrid model of capitalism or business system. A fourth position, of which there are two variants, argues for the establishment of a new complementarity between the system of corporate governance, on the one side, and the system of labour representation, on the other. (Deeg (this volume) calls this 'variable complementarity', defined as 'subsystems [which] cohere or complement each other in different ways under different conditions' (ibid: 13-14).. Variant A is confident about functional conversion (as defined by Thelen 2000) of the system of labour representation, to adjust to changes in corporate governance. Variant B posits that new entrants into the system of corporate governance – usually institutional investors – will adjust their expectations, to become congruent with the established model and its production paradigm.

This paper seeks to clarify the extent and exact nature of current transformations in the German system of corporate governance and political economy, as well as identify sources of change. It offers both an in-depth theoretical analysis and empirical substantiation of institutional change. To this purpose, it will provide first, a discussion of institutional change in general and convergence, in particular and, second, an outline and evaluation of changes in the German system of corporate governance, placing them in their broader institutional context. Although the empirical investigation thus centres solely on the German case, the theoretical treatment of institutional transformation is intended to have a significance beyond the single case.

I shall make the contentious claim that convergence is, indeed, occurring. Convergence has been variously defined, and in this paper it means one-sided adaptation of the 'coordinated market economy' model to that of the 'liberal market economy'. It is being recognised that existing German institutions will mediate the impact of the 'liberal market economy' (LME) model. Hence convergence will not result in the creation of a German variety of capitalism which becomes identical to Anglo-American capitalism in all its features. Nevertheless, the transformation of the underlying system logic will lead to fundamental and far-reaching changes in all institutional sub-systems.

My argument is not based on the functionalist assumption that convergence is occurring because LMEs have shown themselves to perform in a superior way and that imitation by the less efficient is compelling. Nor am I assuming that convergence therefore is inevitable. To the contrary, it will be shown that convergence is connected with far-reaching consequences which will be highly negative for one important stakeholder – labour. I shall suggest that it is reversible, if there is sufficient political will.

The Anglo-American system of corporate governance, in turn, is not static and is undergoing some significant changes. (See Pendleton and Gospel 2003 on changes in the British system and Vitols 2003 on changes in European systems more generally). However, these transformations are viewed by this author as adjustments of the existing model, rather than systemic changes. Changes have been introduced in a voluntaristic manner to enhance system legitimacy, and no underlying dynamic or driver of change has been identified by either set of authors.

Change in patterns of corporate governance is a highly complex process, going far beyond changes in regulation of the capital market and the adoption of new company codes of good practice. A convincing evaluation of the degree and nature of transformation has to go beyond this and deal also with their multiple real consequences for various stakeholders at the level of the firm. It has to deal with any fundamental changes in company strategy and structure and with the new configuration of intra-firm relations initiated by them. Such an evaluation will be undertaken in this paper. In contrast to the chapter by Deeg (this volume) which mainly focuses on developments in the financial system and corporate governance, this chapter undertakes a more comprehensive survey, including strategic and structural changes within firms, as well as changes in the institutions of labour. Such a tracing of the interdependencies between financial system, corporate governance and firm-internal transformation makes it difficult to accept Deeg's claims that 'financial systems may be more "expendable" to CMEs' and that 'the financial system is not (or no longer) actually an important element of distinction among different regime types' (Deeg, this volume: 15). Evidence for an in-depth assessment will be drawn from my own study of German companies in one important industry – chemicals/pharmaceuticals and from a range of secondary sources on firms in other industries. (The chemical/pharmaceutical industry is one of the most important in terms of its contribution to the German GDP and to R&D activity, and it also is a major employer. Although the material substance of change is specific to this industry, the general trend indicated by it is applicable also to other sectors).

The paper is structured as follows. Section II outlines the theoretical framework adopted. Section II.1 presents a brief outline of two models of corporate governance found in the literature. In II.2, a more extended conceptualisation of the nature of institutional reproduction and change is offered, with a special focus on the notions of institutional logic, coherence/complementarity, hybridisation and functional conversion. Section III, the empirical core of the paper, first introduces a brief historical sketch of the German model of corporate governance up to the mid-1990s to enable an assessment of change. This will be followed in section III.2 by an analysis of the changes in formal and informal institutional arrangements at the levels of both the financial system and of the firm. It evaluates the consequences of change for various corporate stakeholders, as well as their opportunities to influence the direction of change or mediate its impact. Section III.3 dwells on persistence of institutional arrangements at both levels and any enduring divergence of the German model from the Anglo-American one. Section III.4 considers the balance of persistence and change and critically examines existing evaluations/explanations of the co-existence of persistence and change. The focus falls on such conceptualisations as functional conversion of institutional constellations and the emergence of a new complementarity between different institutional spheres, as well as on claims about hybridisation of the German business system. In section III.5, it is concluded that the concept of convergence more aptly characterises emergent tendencies of change and that we may expect acceleration of the transformation process in the coming decades. The Conclusion debates the import of the analysis made in part III for the debate on convergence versus divergence, in the context of the theoretical understanding of institutional change detailed in section II. Finally, the paper draws out the consequences of convergence for the German variety of capitalism and the role of labour within it. I conclude by raising the question of whether the process is reversible and what actors might want and be able to initiate a reversal.

II THEORETICAL CONSIDERATIONS

II 1 Approaches to corporate governance

There are two major approaches to corporate governance. The first approach, current in mainstream economics, is only concerned with the relationship between financiers of firms – mainly shareholders and banks (principals) - and their agents (managers) and with formal and informal rules and procedures structuring it. The key goal of corporate governance here is to ensure a maximum return to investors. The development of a market for corporate control, through the threat of takeover, both structures the ex ante incentives of managers to fulfil this goal, as well as disciplining managers if they are under-performing or diverting too large a share of net value to themselves. The second approach, more common outside economics, is the stakeholder approach. This focuses on the entire network of formal and informal relations which determines how control is exercised within corporations and how the risks and returns are distributed between the various stakeholders. In addition to owners of capital and managers, employees are the most prominent. The principle embodied in this form of corporate governance is that companies should be required to serve a number of groups, rather than treat the interests of shareholders as overriding all others. The interests of labour here are foremost, and both their right to an equitable share of surplus and their entitlement to industrial participation are emphasised (e.g. Streeck 2001). .

These two systems of corporate governance then may be mapped onto two different modes of exerting control (Mayer 2000). The first is equated with outsider and arms' length control, connected with dispersed share ownership and the prevalence of institutional investors. The second notion, dwelling on the whole network of control, occurs when share ownership is more concentrated and owners of significant portions of ownership are able to exercise insider control. Concentrated holdings may be held by family owners, banks or other non-financial firms.

In both types of systems, managerial performance is monitored and poorly performing managers are disciplined, but the way in which these two types of control are exercised differs decisively between outsider and insider control . In the insider system, control is exercised through board membership and legal rights of appointment and dismissal. It is said to be more direct and active, whereas in the outsider system control is indirect and exerted through the market for corporate control and the threat of take-over. Whereas the insider system is associated with management goals of stability and growth and longer-term returns to significant owners, the outsider system implies the goals of liquidity of capital markets and of opportunities for short-term maximisation of returns on capital invested.

This paper starts by adopting the second notion of corporate governance which has been prevalent in Germany until the mid-1990s. I then proceed to investigate whether and to what degree it is giving way to the first type in current debates on this topic.

II.2 Analysis of institutional persistence and change.

Theoretical analyses of varieties of capitalism conducted during the last decade or so have differed in the degree to which they have systematically considered institutional change. Works published during the 1990s, such as Whitley 1992 and 1999, Lane 1995; Hollingsworth and Boyer 1997, Berger and Dore 1997, Kitschelt et al 1999, and even Hall and Soskice 2001, have predominantly focused on institutional reproduction or persistence. In this, they have been influenced both by the notion of what constitutes system transformation and by an emphasis on system coherence (Whitley 1992; Lane 1995) or interlocking complementarity of institutional ensembles (Hall and Soskice 2001).

For Hall and Soskice (ibid), institutional complementarity is said to exist when the presence or absence of one institution affects the efficiency of the other (ibid: 16). This is seen to inhibit radical or fundamental socio-economic change and instead promote institutional reproduction. For sociological institutionalists, in contrast, institutional complementarity is derived from the assumption that there is an institutional logic expressed in concrete practices and organisational arrangements which influences what social roles, relationships and strategies are conceivable, efficacious and legitimate (Biggart and Guillen 1999: 725). Additionally, organising logics are held to be 'repositaries of distinctive capabilities that allow firms ….to pursue some activities in the global economy more successfully than others' (Biggart and Guillen 1999). Biggart and Guillen's sociological institutionalism views institutional logics as sense-making constructs and focuses on taken-for granted organisational arrangements. Hall and Soskice 2001, in contrast, committed to a 'rational actor' institutionalist perspective, are concerned above all with interests, incentive structures and efficiency goals. Both these approaches, as well as the work of Whitley (1999), envisage a system logic, internal coherence/complementarity and system reproduction. Hence they have suggested that underlying logics are changed only with great difficulty and have therefore implied that only extreme external shocks are able to effect system transformation. Although change is not ruled out entirely, 'within system' incremental change has been theoretically privileged.

More recently, in the face of empirically observable, wide-ranging change in core institutional arrangements, analysts have begun to question four interconnected assumptions of the above approaches: 1. That system change necessarily has to be of the radical big-bang nature (Sorge, this volume): 2. that it can be brought about only by external shocks (Mahoney 2001; Deeg 2001; Thelen 2000; Deeg, this volume); 3. whether institutional complementarity really is as strong as believed by the earlier approaches, or whether discrete institutions may change independently from the rest (Thelen 2000; Lane 2000; Becker 2001; Deeg , this volume; Vitols, 2001; Morgan and Kubo 2002; or 4. whether the existing complementarity, appropriate for a particular phase of economic endeavour, may not be changed to achieve a new complementarity, reconciling the interests of different stakeholders (Hoepner 2001; Hoepner and Jackson 2001; Streeck 2001; Beyer and Hassel 2002; Deeg, this volume; Sorge, this volume; and Hancke and Goyer, this volume) . (Some of these authors take multiple positions).

These writers implicitly or explicitly dwell instead on more evolutionary and cumulative change. They place great importance also on the influence of internal actors in bringing about radical change. Most important, they do not assume an unchanging system coherence. Instead, some posit hybridisation of systems and identify buffers which prevent change in one part of the system, affecting other parts (Morgan and Kubo 2002). Finally, complementarity is now is viewed in a more fluid and negotiable manner which envisages the evolution of a new alignment of interests (e.g. Beyer and Hassel 2002; Sorge, this volume) and which permits the choice of multiple scenarios for action or paths (Hanque and Goyer, this volume). Such analyses are mostly undertaken from the perspectives of sociology and politics. I agree with these analysts that transformation can result from cumulative change and that a consideration of internal actors' interests and negotiating power is vital when trying to understand the process of change. But this should not lead to the assumption that exogenous sources of change are not important – both need to be considered in tandem.

These recent critics have elaborated a much more sophisticated and valid notion of institutional change and have significantly advanced our understanding of institutions and institutional transformation. But their analyses nevertheless are not fully satisfactory on either theoretical or empirical grounds. They either mistake a temporary phenomenon for the final outcome (e.g. Deeg, this volume); or they argue for new alignments of interests, without sufficient theoretical justification and/or empirical support for this position (e.g. Beyer and Hassel). Last, some (e.g. Hancke and Goyer, this volume) argue for multiple path within one institutional sub-system, without distinguishing between variety within a prevailing logic and variety beyond such a logic.

This paper will further explore some of the assumptions underlying the above arguments and, in doing so, adopts an eclectic institutionalist approach which seeks to combine economic, sociological and political perspectives. Actors are viewed as being motivated not solely by rational considerations of interests and incentives, but also by concerns of legitimacy and quest for meaning. Hence, in terms of Deeg's typology (this volume), sources of coherence may be either a logic of appropriateness or a logic of synergy, depending on circumstances and the actors' vantage point from within the business system.

I concur with recent analysts of change that institutional ensembles may change independently from each other. But in contrast to Deeg (this volume), I argue that this does not necessarily indicate loose coupling, but merely a time delay in change feeding through from one sub-system to another. The resulting opposed logics and lack of coherence can prevail only for a transition period. Instead, I follow Biggart and Guillen 1999; Whitley (1999) and Hall and Soskice (2001) in their claim that there is an inherent strain for system coherence or complementarity, based on an underlying institutional logic, which cannot be disrupted in the longer run if the system is to retain stability. This logic not only structures incentives, but also aids sense-making. It defines interpretative schemes, expectations and goals, making some scenarios for action legitimate and others illegitimate.

Thus institutions are not viewed as totally constraining actors – indeed, the latter have been viewed as bringing about institutional transformation. It is being assumed, though, that once a system logic has been accepted by multiple key actors it poses certain limits, within which action occurs and which cannot be ignored in the longer run without incurring sanctions. Otherwise institutions would be unable to provide scenarios for action which make sense for and/or are considered legitimate by actors located in different institutional sub-systems. Hence this paper does not rue out variety compatible with a dominat logic, nor does it excluded deviant action by isolated individuals or groups or deviance of a short-lived nature. The paper therefore concludes that loose coupling between key institutional components has its limits and that hybridisation – defined by Deeg (this volume: 14) as the coexistence of multiple orders or regimes within one overarching national regime - can only be unstable and temporary. Actors cannot make strategic decisions based on, for example, a market logic in one arena and resort to a more communal logic in another arena of decision-making. If, as Deeg (this volume) suggests, different logics are to prevail in different sub-systems a buffer has to be erected between them to prevent the seeping out of values, expectations, decision rules and problem-solving routines from one sub-system to another. It is difficult to conceive how this could be managed in a national economy where both sectors and firms have a high degree of inter-dependence. The empirical part of this paper will show that, indeed, such interdependence exists.

Of the various analyses of institutional change reviewed above, that advocating the evolution of a new complementarity between institutional sub-systems, aligning interests in a different way, is the most persuasive. But the claims entailed nevertheless are advanced in an *ad hoc* manner, providing neither sufficient theoretical explication, nor empirical substantiation. Instead, it will be argued in this paper that, given both the multiple sources and wide range of change, we must expect the adoption of a new path in the longer term. As adoption of an entirely new path rarely occurs, convergence to the currently hegemonic Anglo-American model is the more likely outcome.

Two further theoretical questions have to be answered. First, how does one know whether institutional innovation, resulting from evolutionary and cumulative change, is within-system or bounded change, or whether it has led to the adoption of a new path and a more fundamental system change. How does one distinguish one type of change from another? System change has occurred when a new logic has replaced the old one, i.e. when it is accepted by most influential actors in the political economy. It is being assumed that the system of corporate governance, which defines relations of control both between and within firms, as well as pinpointing their main stakeholders, is crucial to the definition of the institutional logic linking all parts of the system. If the logic in the mode of corporate governance has changed from a cooperative network approach to one of greater competition between capitals one must expect that cooperation in other institutional constellations, such as industrial relations and joint decision-making on issues vital to labour's interests, becomes difficult to sustain. A system logic does not prescribe a narrow path but provides a broad set of values and goals which establish certain priorities and set parameters of action. Once a logic has become scurely established, however, persistent rejection of these parameters draws sanctions.

Second, how does system change differ from hybridisation? Hybridisation usually implies that complementarity no longer exists and that different parts of the system are dominated by different logics. Transformation in one major sub-system is considered compatible with stability in another sub-system (Deeg, this volume). Thus, to illustrate, the logic of the liberal market economy may be accepted by actors in the capital market and in large listed firms, but not by unlisted large companies or by small and medium-sized firms and their banks (Deeg 2001 and this volume). Or, alternatively, the new logic may dictate strategy in product markets but not in firm-internal systems of co-determination (Hoepner and Jackson 2001).

To sum up the argument so far, it has been suggested that (actual or imminent) transformation of core institutional arrangements of the German political economy has been more striking than reproduction and that it is necessary to arrive at a theoretical understanding of this momentous process. It has been argued that hybridisation generally is an unstable temporary phenomenon. If a cumulative change in a central institution has fundamentally changed the logic which governs relations within that system, and if it is supported by powerful actors both within firms and the political system, hybridisation is not likely to endure. The power and/or legitimacy of internal champions of change will lead to a spill-over into other parts of the system, even into those more remote from the stock market. Complementarity eventually will be restored. Hybridisation, however, may be more enduring if it is supported by some powerful internal actors and effective buffers between different spheres of the economy are erected. (See Morgan and Kubo 2002 on Japan). All this does not rule out the existence of multiple scenarios for action within a sub-system, but only the presence of solutions, informed by different system logics.

These theoretical claims will be substantiated in the empirical part of this paper focussing on contemporary changes in the system of corporate governance (Parts III.2 to III.4). First though a short description of the German system of corporate governance during the post-war period and up to the middle 1990s will be outlined. This will identify the institutional logic and coherence of that system, as well as provide a base lne against which more recent transformation may be assessed.

III REVIEW OF EMPIRICAL EVIDENCE

III.1 Historical sketch of the German financial system and form of corporate governance.

Throughout the post-war period, until the mid-1990s, the German financial system and mode of corporate governance showed a high degree of stability, distinguishing it, for example, from the French system (Morin 2000). It has often been described as being diametrically opposed to the system of outsider control, prevalent in Britain (Lane 1992 and 1995; 2000; Heinze 2001) and in the US (O'Sullivan 2000).

Among sources of capital for German firms, retained earnings has been the most significant, leaving firms highly autonomous (Deutsche Bundesbank 1997: 37, quoted by Becker, p. 31). Bank debt was low, and issuing of shares through listing on the stock market was common only among a small proportion of the largest firms. Due to a number of reasons, the stock market remained underdeveloped and insignificant both for domestic and foreign investors. Hence stock market capitalisation has been low in comparison with Britain, the US and even Japan. Thus, during the period of 1982 to 1991, stock market capitalisation stood at only 20 per cent of GDP, compared with 75 per cent in the UK (Mayer 2000: 1). Ownership in German firms has been relatively concentrated, and family ownership is still significant even in some very large firms. Cross ownership of non-financial firms has been more pronounced and interlocking directorships have been highly developed (Windolf 2002). For all these reasons, hostile take-over was almost unknown. Although historically banks have been important insiders in German firms, occupying a high proportion of seats on supervisory boards, their ownership stakes during recent decades have not been high. Their importance as insider controllers has been upheld primarily by their ability to cast proxy votes on behalf of the many smaller investors whose shares they administer. Important rights of control have been vested in the supervisory board. It is independent from the management board, and seats on it are held in varying proportions by representatives of owners and employees. Relatively effective employee co-determination has been a distinctive feature of the German system of corporate governance.

Such a system of corporate governance has implications for a wider range of stakeholders. Hence top managers in this system are said to be less autonomous than their British counterparts (Vitols et al 1997), being more accountable to both large owners, banks, employees and even the local community. Decision-making is more consensus-oriented and may even be described as more collective.

There has, however, been a relatively low constraint to deliver very high returns to shareholders, and instead stability of the firm, market growth, together with adequate profits, have been management goals. Managers usually made their career in a given industry and advanced to top positions within the internal labour market. These circumstances have enabled managers to pursue strategies, oriented towards longer-term returns, and this orientation has shaped the German practice of skill development and the production paradigm of diversified quality production.

Employees possess legally guaranteed rights of control, both through representation on works councils and on the supervisory board. The number of seats held by representatives of labour on supervisory boards differs according to firm size but can approach parity with representatives of capital in the largest firms. (For details on the system of codetermination, see Lane 1989). Unions are not formally represented in firms but strongly rely on works councils for information and recruitment of new members. Labour representatives have exercised their rights to safeguard their skills, their employment security and an equitable distribution of surplus between various stakeholders. In practice, the effective use of legal rights greatly depends on the local strength of labour which is influenced both by the nature of and degree of indispensability of employees' technical skills and of activists' social and political resources and capabilities (Kaedtler and Sperling 2003). Both works councils and board representation have been utilised in a manner which combines co-operation with management on many issues with a more oppositional stance on others. Despite some variation in the balance between partnership and conflict between firms and industries, the German system as a whole has been aptly described as one of *Konfliktpartnerschaft* (conflictual partnership) (Mueller-Jentsch 1993).

During the 1990s, both the level of union membership and of the number of works councils have declined, as a consequence of both increased globalisation and of reunification. The pay gap between top managerial staff and other employees has been far less pronounced than, for example, in Britain and the USA (Crouch and Streeck 1997). The other side of the coin is that financial control of organisational subunits has been relatively lax, financial transparency of companies low, and small investors have had no means to safeguard adequate returns on their investment.

The underlying logic, informing all parts of the German political economy, has been shaped by a network type of control. This has aimed for stability and growth, rather than for short-term high returns on investment. This network has included employees as important stakeholders in the firm, entitled to a fair share of surplus and to co-decision-making in areas directly affecting their current and future well-being. A logic of co-operation both within networks and in individual companies, rather than one of market competition, has prevailed.

III.2 Recent institutional changes in the German financial system and system of corporate governance.

III.2.1 Sources and promoters of change

This network system of corporate governance has begun to change during the second half of the 1990s, and it is suggested that both exogenous and endogenous sources of change and actors need to be considered. The external impetus for change has come from three main sources. Although there is considerable interdependence between them, each source of change also can be effective in isolation. Many analyses of changes in the German model of capitalism have focused mainly on the transformation of the financial system and of capital markets (e.g Heinze 2001; Deeg, this volume) or deny the marked interaction in the influence of international capital and goods markets (e.g.Beyer and Hassel 2002: 12). Only a consideration of all three sources and a recognition of their mutually reinforcing impact, however, is able to capture the full force for change.

The first source of change has been liberalization of international capital markets and the greater readiness of hitherto 'national' capital to seek out the most profitable opportunities for both accessing and investing capital wherever this may be in the world. This has entailed the modernisation of capital markets in continental Europe –particularly in France and Germany - and the spread of the Anglo-American model of organising them. Such modernization has introduced new market actors - investment funds - and has established enhanced legitimacy for and wide acceptance of their primary goal – improved shareholder value. This, in turn, has put pressures on listed firms to restructure their operations in line with fund managers' expectations, particularly to reduce diversity and concentrate on what is considered core business. Failure to de-diversify is sanctioned by the so-called conglomerate discount on the share prices of such firms. Greater pressure for enhanced profits and dividends has forced managers to turn previously integrated organisational sub-units into independent profit centres. Capital market actors thus have introduced the logic of the market into firms and have been able to influence their strategic decision-making.

Intensified competition in product markets has been the second source of change. It has made it important to attain sufficient size and market influence to prevail against international competitors, and this has exerted pressure for capital concentration, through merger and acquisition. This, in turn, sometimes has precipitated listing on stock markets. (An example is the pharmaceuticals company Merck KgaA which, although in majority family ownership, listed a proportion of its shares in 1996). Competitiveness on international markets also has been shaped by product innovation. The much increased speed of innovation and the greatly enhanced cost of research and development to achieve it, have created further pressures for capital concentration and reliance on the stock market to achieve it.

A third source of change in corporate governance have been new cultural or ideological orientations, shaped by three processes of cultural diffusion. Here the reference is to the concept of shareholder value and associated motivations, cognitions and scenarios for action. These have been widely propagated by consultancy firms which are often of Anglo-American origin. They have been absorbed through participation in new programmes of management education, particularly the MBA, and, last, during extended spells of direct exposure to Anglo-American business environments when managing German subsidiaries in these two countries.

All these external pressures, it will be shown below, have not simply been imposed on unwilling financial and non-financial firms. Core and powerful economic actors have begun to identify their own interests with those of capital market actors and to actively promote internal change. Political actors have given them legislative support and have not stepped in to alleviate the consequences of financial liberalization, as evidenced in the recent take-over of Mannesmann by Vodafone. (For details, see Hoepner and Jackson 2001). Furthermore, important legislation, fundamentally changing the principle of governance, has been passed by the social-democratic/Green government.

However, political attitudes on what model of capitalism is appropriate and desirable for Germany have differed both within parties and between them. Thus, the current and previous social democratic /Green coalition governments have been sending out conflicting messages. The new Takeover Law, in force since 1 January 2002, permits the target management to put into place anti-takeover defences, provided these have either received support from 75 per cent of shareholders or have been authorised in advance by the supervisory board (Deakin et al 2002). Also opposition to the introduction of a new liberal EU directive on takeovers has been opposed by German members of the European parliament, leading to its narrow defeat. Last, the SPD/Green led governments, until recently, have shown themselves to be very pro-labour on the issue of labour market reform. There is no indication as to how these conflicting stances towards organising labour and capital markets are to be reconciled.

Finally, it is evident that multiple exogenous sources of change have exerted a powerful influence, accepted by key sets of internal actors. It is, therefore difficult to accept the claim made by Deeg (this volume), Becker (2001), and Vitols (2001) that the impact of change can be contained in one section of the economy – in a few large flagship companies – and not seep out to other segments of the economy as well, as argued in this paper.

III.2.2 Changes in capital markets

Wide-ranging changes in German capital markets have been effected by both important market actors and by government changes in legislation. A long list of changes from the mid 1990s onwards (for an exhaustive list, see Hoepner 2001) by 1998 had led to the modernization of the organisation and regulation of the German stock market and to the establishment of a centralised capital market on the US/UK model. Particularly significant steps were: the weakening of the regional decentralization of stock markets and the creation of a unified market in Frankfurt, to become the privatised *Deutsche Boerse*; the creation, in 1994, of a federal authority for market supervision; the establishment of legal rules and conventions, creating greater transparency in firm structures and actions; safeguarding of the rights of minority owners; the removal of some hurdles to hostile takeover; and the creation of the initially successful *Neuer Markt* for smaller, technology-intensive firms, which caused a wider diffusion and acceptance of the market principle both among smaller firms and small German investors.

Other government legislation fuelled the expansion and influence of the stock market on firms. Among these were the authorisation of stock options as part of managers' reward package, in order to realign incentives; the legalisation of share buy-back; the introduction of a semi-voluntary company code to encourage greater transparency and accountability of firms to investors. The most far-reaching piece of legislation, however, passed in 2000 and implemented in 2002, is the exemption from tax payments of sales of blocks of shares, previously tied up in cross holdings. It is expected that this tax reform, encouraging investors' withdrawal from long-term share-holdings in under-performing companies, will unravel the German system of cross shareholding. It thus is likely to dissolve the large block holdings and destroy the network character of corporate control. This, in turn, will constrain companies to become more reliant on stock markets. The resulting greater dispersion of holdings then will provide investment opportunities for outsiders, thus making firms more vulnerable to takeovers. As non-financial firms are the most significant owners of other non-financial firms this would knock out the basis of the current German system of insider control. This will put into question the long-termism that patient capital has permitted, as well as undermine the co-operative character of inter-firm and intra-firm relations.

All these measures also have changed the role of banks, both in capital markets and within firms. Banks have begun to recognise that their business in large firms had been diminishing (Becker 2001; Deeg 2001) and, simultaneously, that more money could be made in investment banking and active asset management. Deutsche Bank has led the way in transforming itself and entering investment banking on the Anglo-American model, and several other banks have since followed this move. Banks' partial disengagement from insider control is evident in their reduced representation on company supervisory boards (Luetz 2000) and, more dramatically, from a significant surrender of chairmanships. Thus, between 1992 and 1999, banks' share of chairmanships fell from 44 to 23 per cent in the largest forty companies (Hoepner 2001). They additionally now have slightly less control over proxy votes (Deeg 2001). The giant insurance company Allianz, although not withdrawing from boards to the same degree, has changed its strategy towards more active asset management, in the same way as Deutsche Bank (Heinze 2001; Hoepner 2003b: 22) and Munich Re, another insurer (O'Sullivan 2003). Together, these developments indicate their reduced willingness and capacity for insider monitoring. As Deutsche Bank and Allianz between them are the most significant owners of large listed companies , their change of strategy cannot but be highly consequential for cross shareholding networks. Many banks already put greater emphasis on short- and middle-term increases in share values of the companies in their ownership portfolio (Becker 2001: 316).

III.2.3 Changes within firms

The number of companies listed on the stock market has increased very slightly as has listing on foreign markets, and the proportion of shares owned by foreign institutional investors increased from 4 per cent in 1990 to 13 per cent in 1998 (Deeg 2001: 27, footnote 39; O'Sullivan 2003). Also the degree of dispersion of share ownership has risen slightly. Those companies already quoted undertook a number of changes, significantly affecting corporate governance, organisational structures and strategies and the relations with other stakeholders. However, the number listed has remained small and of those quoted, only a minority – around 10 per cent – significantly changed their ownership structure and became exposed to takeover (Heinze 2001). A market for corporate control, it is widely agreed, has not yet developed. But the market nevertheless is shaping many managers' expectations and interests, as external monitoring of listed companies has become prevalent. Together, these developments have become sufficient to have exerted a significant effect on internal strategic decision-making. Many companies not exposed to shareholder pressures have adopted elements of the notion of 'shareholder value' to legitimate restructuring and a greater performance orientation. Even firms still in substantial or total family ownership, such as the pharmaceutical companies Merck KgaA and Boehringer Ingelheim, now work with financial indicators and targets, as well as using managerial incentives, normally found only in listed and/or widely held companies.

Hence the influence of the stock market on managerial attitudes, goals and strategies of companies has been pervasive, affecting both listed and unlisted internationally oriented companies. Although there is little evidence that investment funds are exerting strong direct external control over managers, the indirect influence of the stock market, via the movement of share prices, has been considerable. The listed companies have responded to external market monitoring in different ways. Some investor stipulations have been widely followed, whereas others have been accepted by only selected companies. These responses are evident not only in a fairly common greater cultivation of investor relations, the adoption of international accounting standards and the issuing of quarterly reports (Beyer and Hassel 2002). They are additionally expressed in more fundamental changes of strategy and structure, relating to enterprise goals, such as mode of growth, selection of product portfolio, incentive structures and system of payment (Becker 2001; Hoepner 2001). Examples from one industry will illustrate this, but there exist sufficient research findings on firms in other industries (mainly produced by teams working at the Max-Planck-Institute in Cologne) to support a conclusion that this a more general trend.

As firm size is becoming more crucial to survival in global markets, more firms have had to dilute owner control and become listed to raise the additional capital needed for expansion (e.g. Merck KgaA, Altana and Fresenius) or to swap shares in mergers. Concern with the movement of company share price then motivates managers to introduce various strategy changes, welcomed and rewarded by capital market actors. Some or all of the following changes in strategy and structure have been implemented by companies in the chemical/pharmaceutical industry: introduction of sometimes ambitious targets for growth in turnover and profits (most large companies in the industry); changes in organisational structure to enable better control of performance by both top managements and capital market actors, as well as to facilitate spinning out and/or listing of organisational sub-units (Hoechst, Bayer and Fresenius); introduction of share options or equivalent schemes to align managerial incentives with those of investors (all major companies in the industry); introduction of reward systems for employees, tied to the company's or business unit's performance (all large companies in the industry); some reduction of product diversity to enhance transparency and a greater shift to the more profitable pharmaceuticals segment (executed most consequentially by Hoechst/Aventis and more hesitantly by most of the other companies) (Company Annual Reports 2001/02; Becker 2001). All these measures go beyond merely signalling to investors and instead have involved concrete and consequential organisational and attitudinal transformations.

Unlisted firms and those still substantially under family control have responded to a lesser degree. But they nevertheless have been compelled to make partial adjustments as they operate in the same competitive environment as the companies, exposed to stock market control. Thus Boehringer Ingelheim, still wholly family-owned, nevertheless has introduced changes in organisational structure which force managers to take more responsibility for their units' performance and has introduced 'shareholder value' indicators for purposes of internal control. Additionally, the company has introduced a functional equivalent to a share option scheme, in order to attract and retain high calibre top managers (Becker 2001: 299). Merck KgaA, although over 70 per cent family-owned, has introduced share options for the same reason (ibid: 310). In sum, important aspects of managerial strategies have been decisively shaped by changes in corporate governance, even if there is still resistance on some aspects and different firms have adapted at different speeds and to different degrees.

Managers are not merely responding to new sets of incentives, but many of the younger managers, on the basis of US training or experience, have developed different world views and use different sense-making constructs from those current in the traditional German business system. Many are less committed to the traditional German company culture and internal career and have become more akin to their Anglo-American counterparts (Faust et al 2000). Career patterns of higher managers are becoming more similar to those of their Anglo-American counterparts, as evidenced in the dramatic decline in the average time in post during the 1990s (Hoepner 2001) – a feature more conducive to adopting a strong stance on raising short-term profitability. More entrepreneurially oriented generalist managers are now sought by large corporations, and 'intrapreneurship' is more prevalent in many managers' world view than the old bureaucratic model (ibid: 272f). Financial and business specialists now are more likely to be selected for promotion to management boards (Hoepner 2001; Baecker 2001), necessarily causing partial displacement of the traditionally strongly entrenched production-oriented engineers. (The radical restructuring of Hoechst, for example, in line with shareholder demands, was master-minded by just such a financial specialist – Juergen Dormann). More generally, the new generation of German top managers recognises the importance of financial indicators and targets as bases for strategic decision-making, and applying them has become legitimate practice among many higher German managers (Becker 2001: 274). Such practices are regarded as modern management approaches, the adoption of which enhances managerial reputation.

All these changes in strategy, structure and reward systems have impacted on employees and on organised labour, i.e. company co-determination systems and industrial relations at industry level. Negative repercussions for employee stakeholders have been various. The famed German employment security has been eroded in some large 'shareholder value' companies, such as the former Hoechst, Siemens and Daimler-Chrysler, where massive job reduction has occurred. (See also Faust et al 2000, on the greatly increased feeling of insecurity, even among managerial employees). Selling off or closing of sub-units and large-scale job cutting have become more prevalent. 'Shareholder value' firms now spend a higher share of net value generated on dividends and a lower proportion on labour (Beyer and Hassel 2002: 15, reporting on a survey of the 59 largest German companies). They have not reduced spending on labour but have cut the level of employment and thus have intensified labour for remaining employees (ibid). In 'shareholder value' companies, a greater proportion of employees' pay is now variable (Kurdelbusch 2001), creating insecurity, as well as undermining labour solidarity. Representation on company-wide works councils and the solidarity it affords have been weakened by linking pay more strongly to performance of individual company sub-units. In the words of Rehder (2002), quoted by Deeg, (this volume), 'the constitutional exercise of worker rights within firms is being replaced with contractually negotiated rights'. A much increased focus by employees on the profitability and survival of their employing company also has made employee representatives less willing to cooperate with unions to achieve wider industry goals (Hoepner 2001: 27). At the same time, labour has not been fundamentally opposed to the imposition of shareholder value, and it has even seen some of the new developments, such as greater company financial transparency, as being very much in employees' interest (ibid). Hence organised labour, particularly at the company level, appears to be coopted into a more neo-liberal model.

The evidence presented above makes it difficult to accept the claim, made by Juergens (2000) and endorsed by Deeg (this volume), that 'the greater number of firms …have shunned or only made weak efforts to adopt the share holder approach'.

III.3 Persistence of the German model

The story told so far has provided a one-sided picture. Many features of the old system of corporate governance persist, and convergence to and divergence from the Anglo-American model exist side by side in a complex mixture. An assessment of the degree of persistence has to bear in mind, however, that German companies have only achieved financial internationalisation since the late 1990s.

The most glaring example of persistence of the old financial system is that German firms have not been rushing to become listed on the main stock market which, in comparative perspective, remains strongly undercapitalised. Hence only the large flagship companies, and not all of those, are subject to stock market pressure, and family ownership of even very large companies persists. However, the number of IPOs, on the *Neuer Markt*, increased dramatically since 1998 (O'Sullivan 2003: 16), indicating a change in psychology among managers of younger firms, and foreign listing on the New York stock exchange and on Nasdaq also had risen by 2000 (ibid). Individual shareholding, although greatly increased, remains low by international standards and thus retards the development of a shareholder psychology. Recent adverse developments in the capital markets, particularly the collapse of the *Neuer Markt*, have called forth a renewed scepticism about financial markets.

Among listed companies, ownership concentration, sustained often by cross ownership of shares, remains significant. Average size of voting blocks of nearly 50 per cent may be opposed to blocks of less than ten per cent for UK companies (Mayer 2000: 2). This continues to obstruct the development of an outsider system of control and of a market for corporate control. The influence of foreign investment funds – the most insistent claimants for shareholder value - has been significant in only a small proportion of cases – about ten per cent of large listed companies.

There has been no change in company law, and the system of codetermination is still intact, although both works councils and unions have been weakened during the 1990s. Reduced cooperation between works councils and unions and a migration of negotiation to the company-level, which preceded changes in corporate governance, has obvious implications for the use of the strike weapon and the whole system of collective bargaining. Employee stakeholders still retain some degree of influence, if not control, within the enterprise. The two-tier board, designed for insider control, remains in place. The partnership component of the German model of 'conflictual partnership', by and large, is still upheld but its conflictual element has been weakened.

In sum, persistence of features of the 'insider' or 'network' system thus still is impressive, but the points clearly have been set for transformation. Processes of capital disentanglement had already started before the Eichel Law was passed in 2000 (Hoepner 2003b: 22f.) and labour has become a weakened stakeholder. Hence the developments in capital markets and firms outlined in section II may be expected to undermine almost all of the hitherto persistent features in the coming decades. This expectation is strengthened by the fact that many influential economic and political actors are supporting change, and active resistance to it does not appear to be strong. It seems increasingly unlikely that the degree of persistence indicated above will endure.

III.4 Balance of change and persistence: hybridisation?

The discussion under III.2 has shown that the German system of corporate governance has experienced far-reaching change in its underlying logic, indicating significant convergence with the Anglo-American system. But, at the same time, it shows stubborn resistance to change on some central features of corporate governance. (See discussion in section III.2). Most analysts nevertheless agree that the German financial system and form of corporate governance have converged to the Anglo-American model, but they stop short of positing convergence for the whole political economy or variety of capitalism. Instead, most analysts are suggesting that other institutional configurations are persisting, adjusting or, indeed, that shareholders will be adapting their goals to fit in with the logic of a stakeholder economy. Hence these scholars either conceptualise current transformations as a process of hybridisation (Deeg 2001 and this volume; Vitols 2001; Baecker 2001; Hoepner and Jackson 2002), as functional conversion of existing institutional complexes (Hoepner and Jackson 2001; Hancke and Goyer, this volume), or as the elaboration of a new 'within-system' complementarity (Streeck 2001; Beyer and Hassel 2002; Sorge, this volume). Functional conversion, according to Thelen (2000: 105), occurs when exogenous shocks empower new actors who harness existing organisational forms in the service of new ends. Establishment of a new complementarity, in contrast, envisages that new external actors adapt their goals towards existing structures and interests.

Diagnoses of hybridisation are based on the belief that the great internal heterogeneity of the German economy creates highly diverse contingencies for firms and hence, despite some common pressures, precludes convergent development (Deeg 2001 and this volume; Vitols 2001; Becker 2001). The focus is particularly on diversity in terms of sector, size and type of firm, as well as degree of exposure to global pressures. While Deeg (this volume) and Becker (2001) offer both a theoretical and an empirical argument in favour of hybridisation, Vitols mainly argues in empirical terms. Becker suggests that variability between firms in their degree of adherence to 'shareholder value' is due to diversity in managerial perceptions, cognitive focal points and evaluations of contingent circumstances, regarded as at least in part endogenous to the institutions which govern managerial actors' rationality.

The second set of arguments outlined above posits that the system of codetermination and democratic participation of labour are such centrality to the German production paradigm of diversified quality production that a way will be found to reconcile the logic of the capital market with the logic of an employee stakeholder system (Hoepner 2001; Hoepner and Jackson 2001; Streeck 2001; Beyer and Hassel 2002). Evoking Thelen's (2000) concept of functional conversion, it is being suggested by Hoepner (2001) and Hoepner and Jackson (2001) that institutionalised practices of co-determination have become transformed, in order to re-establish complementarity with the system of corporate governance. In the process, they have changed from being an institutional structure to negotiate on issues of a 'class' type to one mainly supporting the company goal of enhanced efficiency. Streeck (2001) and Beyer and Hassel (2002), in contrast, suggest that shareholders will adapt their demands to fit in with the requirements of the German system of diversified quality production and thus establish a new complementarity.

How persuasive are the hybridisation claims? The argument about diversity between firms, in my view, underestimates the pressure for isomorphic adaptation (DiMaggio and Powell 1991) which emanates from the example of the large flagship companies, the business press and consultancy firms and overestimates the capacity, in practical terms, of one set of firms to insulate themselves against the 'performance' culture adopted by another set.. Additionally, it wrongly suggests that transformation of the German political economy could only occur if all economic actors were to adopt the 'shareholder value' model to the same degree. Becker (2001) and Vitols (2001), in support of the first variant of the hybridisation thesis, cite the differing product strategies, organisational forms and cultures of large companies even in the same industry – chemical/ pharmaceutical. They contrast what they see as the highly divergent paths taken by Hoechst/Aventis, Bayer and BASF.

A close analysis of recent developments of the three chemical/pharmaceutical giants, however, shows that Hoechst was merely the first, in 1996/97, to choose a strategy of de-diversification and radical organisational and legal restructuring. Both Bayer and Hoechst/Aventis, on Hoepner's index of shareholder value orientation, are ranked very highly, and Bayer even tops Hoechst/Aventis in the ranking list .Bayer and BASF, although originally much more wedded to the retention of a diverse product portfolio and a traditional integrated organisational structure, have begun to embark on a similar, albeit less radical path. Bayer retains chemicals for the time being, but the proportion of pharmaceuticals in the portfolio is being systematically increased. In 2002, the company began to restructure itself into a holding company, with legally independent subsidiaries – a pattern highly reminiscent of the Hoechst model. The push to proceed in this way clearly came from the capital market. According to the company's web site, this new structure gives greater transparency for internal resource allocation, for the capital market and for stockholders (Bayer web site, 13.August 2002). It may well be a preparation for the planned acquisition of pharmaceutical companies, to further increase the focus on this business area, favoured by the capital market. BASF, too, has sought to gain more focus, albeit in a different direction from Hoechst. In 2000, it shed its business in pharmaceuticals to concentrate on chemicals. (Its subsidiary Knoll, which had the largest part of the pharmaceutical operations, was sold to Abbott Laboratories). Thus, the three companies have not adopted identical strategies, but all are clearly changing, albeit at different speeds, in the direction, rewarded by the stock market.

Most other large German chemical/pharmaceutical companies have been engaged in strategic and organisational adjustments oriented towards capital market actors. (See section III.2.3). According to Becker (2001), 'in all enterprises, there occurred during the 1990s, an upgrading of financial controlling, closely allied to centralisation of strategic management and the granting of operational independence to operative units, all allied to the use of performance indicators and targets as bases for decision-making (ibid: 273-74). It is only in the area of greater focus on core competences that most German chemical-pharmaceutical companies have stalled and are holding on to a more diversified product portfolio for reasons of risk distribution.

Nor is diversity as pronounced when we move to other industries or to firms in lower size classes. Although the pharmaceutical industry is among the most highly internationalised ones there now exists hardly any industry sheltered from competitive pressures in international markets for capital and goods and services. The studies by Beyer and Hassel 2001, Hoepner (2001), Zugehoer (2001) and Hoepner (2003b:21) well illustrate that the shareholder value orientation is prevalent also in other industries. Even industries with a low level of internationalization are exposed to pressures from inward investors and, if listed, are not immune from takeover.

Furthermore, competitive pressures affect both large and medium-sized firms, albeit to different degrees. In Germany, interactio between large companies and SMEs is particularly pronounced, and a buffer insulating one firm segment from the other is difficult to imagine. Firms in both size classes have to seek funds to increase their size or to increase investment in R&D, in order to stay ahead in the international competitive race. (See Altana's recent listing and its strongly-developed investor orientation as a good example of a medium-sized firm in the pharmaceutical industry adopting the 'shareholder value' paradigm.) Nor are smaller firms totally exempt from pressures as large firms have to pass on cost pressures to their smaller suppliers. The existence, until recently, of the *Neuer Markt*, too, has familiarised smaller firms with market practices and values. Nor are smaller firms necessarily any longer shielded by their banks. Commercial banks themselves now are subject to pressures from `shareholder value`. Pressures on non-commercial savings banks to become more profit-oriented in the longer run will force them, too, to pass these on to their SME clients, especially after the imminent demise, due to an EU directive, of most of the privileges currently still enjoyed by savings banks (Lane and Quack 2000).

Managers, as suggested by Baecker (2001), do indeed differ in the extent to which they acknowledge and accept the new pressures for greater transparency and shareholder value. But their perceptions, interests and motivations are increasingly being shaped by the ideology of shareholder value, and generational change also is evident. Goals and practices associated with 'shareholder value', such as monitoring profitability with numerical targets, are not seen in ideological terms, but as being part of modern management practice, likely to raise reputation. Some managers have embraced the new ideology with alacrity as, for example, the chief executives of Hoechst and Daimler-Chrysler, others have done so more partially (the CEOs of Bayer and Siemens) or more reluctantly (the previous CEO of Merck) when the adverse consequences of non-compliance for stock price became obvious. In 2000, the Aventis share surpassed that of Bayer in value by nearly 100 per cent although Bayer had been, if anything, more profitable than Aventis/Hoechst during most of the 1990s. But it was being punished by the socalled conglomerate discount, whereas Hoechst/Aventis was rewarded for conforming to all demands of capital market actors (Becker 2001: 137-140, 145). Merck's chief executive – a member of one of the owning families - publicly railed against stock market actors' demands and tried to pursue a strategy of maximum stability of earnings for the owning families. Merck's share price, despite good overall performance, consequently did poorly. This chief executive has now given way to a more compliant professional manager, and the share price has risen accordingly (ibid). The new pressures for enhanced performance and more transparent organisation, exerted on managers of large listed companies, have to be passed on to both their subordinates and their business partners and thus gradually will diffuse throughout the economy.

The view of Hoepner and Jackson (2001) that 'shareholder value and co-determination do get along fine' exemplifies their claim that many works councils have undergone functional conversion and are now seeing their main function as supporting management goals of enhancing efficiency and competitiveness (ibid). Labour, however, is not newly empowered, as Thelen' s (2000) concept stipulates, but, to the contrary, adapts from a position of weakness. Hence the claim by Hoepner and Jackson (2001) that the institution of co-determination is persisting, despite the changed logic of the system of corporate governance, does not convince. The goals of co-determination, it is true, therefore are no longer in opposition to those of corporate governance, but the reverse relation does not hold.

Adherence to the ‘shareholder value’ principle by management means putting investors first, and many of the activities undertaken to satisfy investors go counter to employees’ interests, as already detailed in section III.2. What persists in many cases is only an institutional shell, emptied of the old ideological content which allowed bodies of codetermination to execute checks on and provide a counterweight to the power of capital. The collapse of any real chances for co-determination and its substitution with a co-management stance would be better described by the term ‘loss of function’, than by the label of ‘functional conversion’. Cooperation, in many firms, is no longer balanced by conflict over issues, undermining the interest of labour. This is, however, not to assert that the influence of German labour has fallen to the same low level as it has in the US and the UK.

Furthermore, the system of co-determination and the stakeholder company, which has long been entrenched in German political culture, is now longer sacrosanct and has been attacked by several different influential constituencies (Callaghan 2003: 8-9). The Commission, which drafted the new corporate governance code, is planning to introduce a new investor-friendly measure. This would permit companies, with more than half their employees overseas, to opt out of being bound by co-determination (*Financial Times*, 8. November 2002: 9). The Head of the influential national industry association, the BDI, is known to be another vocal critic. On 18 June 2003, VIP, an association of institutional shareholders, joined the fray. 58.3 per cent of shareholders in Lufthansa adopted a motion, criticising the vice-chairman of the company’s supervisory board, the leader of the trade union Verdi, for supporting a recent, highly damaging strike in the company. A conflict of interests by union members of the supervisory board, highlighted by their motion, additionally has been identified by J. Schwalbach, a professor of business economics and the chairman of a forthcoming conference on the future of co-determination (*Financial Times*, 20. June, 2003: 8). In sum, criticism of co-determination from a variety of quarters make it appear likely that a fundamental institutional reform now is on the cards. At the very least, it is quite untenable to claim, as does Deeg (this volume: 26), that ‘the system of co-determination in Germany seems to have a high level of path dependency on its own as it seems to remain robust in the face of far-reaching change in related systems’.

A stronger argument in favour of the establishment of a new complementarity between corporate governance and the institutions of labour has been advanced by Streeck (2001) and Beyer and Hassel (2002). Implictly adopting the view of Biggart and Guillen (19991) that a certain system logic ‘breeds’ certain capabilities, conducive to cultivation of particular market niches, they rightly point to the indispensability to the German production paradigm of high levels of human capital development and consensual decision-making. They further strengthen their claims by pointing to empirical evidence that, to date, wage levels have not fallen and commitment to a high-skill economy has not noticeably weakened. However, they neglect to note that payment for this expensive system of training now is under strain.

Beyer and Hassel (2002) further claim that investors have not shown themselves opposed to the expensive training system and may recognise that this system enables German firms to deliver higher value. They suggest that institutional investors might be willing to forego short-term profit maximisation in favour of longer-term gains. Beyer and Hassel (2002) thus are citing the arguments of 'enlightened shareholder value' and refer to the professed willingness of some fund managers to support the 'high road' to simultaneous gain both for shareholders and other stakeholders. But unfortunately, at the time of writing, these professed enlightened goals hardly have been put to the test.

Furthermore, although many managers and policy makers will no doubt wish to preserve the venerable paradigm of 'diversified quality production', powerful constraints for profit maximisation will make this a much more problematic endeavour than is recognised by Beyer and Hassel (2002). Their argument attributes more subtle behaviour to investors than is possible in an arms' length market environment where resources usually flow to producers who are likely to guarantee the highest returns. Their assumption that patience by stock holders will necessarily be rewarded by higher future yields from German producers is dubious. There is no evidence that the German production system of diversified quality production can deliver such comparatively high returns on investment.

The various points made above seriously question whether the various theses on hybridisation, functional conversion and the development of a new complemenarity between the systems of corporate governance and of industrial relations will continue to be useful for the analysis of developmental trends in the German variety of capitalism. The third scenario cannot be ruled out on theoretical grounds, but the theoretical basis for any new complementarity is not specified, and empirical evidence provided for the emergence of a critical mass of enlightened shareholders is quite insufficient. The next section therefore will again pose the case for convergence. To do so, I will identify the underlying pressures which will eventually destabilise the hybrid system and/or bring into conflict incompatible interests and goals and advance the process of convergence. I shall also pinpoint the developments already under way which indicate such a progressive trend.

III.5 Pressures for system convergence

As acknowledged by Deeg (2001) and O'Sullivan (2003), the changes in the capital market now are so well established that they have become irreversible. They have created a new logic for corporate governance which will prove compelling in the longer run. This is all the more the case because these changes have been accepted and promoted by powerful internal actors – German commercial banks and the insurance company Allianz. The gains from the switch to outsider control have amply compensated the large commercial banks for the progressive attenuation of insider control, and their interests now are firmly aligned with a stock market oriented economy (Becker 2001).

Their enduringly powerful position in the German political economy makes it most likely that these financial institutions have been instrumental in nudging the last Schroeder government towards support for system change. This first became evident in politicians' reluctance to intervene to save Mannesmann from takeover (Heinze 2001). But a more important occurrence has been the introduction of the socalled Eichel tax reform, which encourages the unravelling of the system of cross shareholding by non-financial companies, and it has been passed without much debate. According to Hoepner (2003b), it must have enjoyed the tacit support of social-democratic politicians and of some unions. Since WWII, he suggests (ibid), the German left has come to view the entanglement of capital as a political threat. Accordingly, politicians on the left have adopted more liberal attitudes, preferring competition between capitals to the traditional German network form of cross shareholding, with banks as powerful network centres. But to look solely at political motivations does not comprehend the full force behind change in the finacial system. O'Sullivan (2003) plausibly attributes changes in capital markets to the realisation, by policy-makers, that German firms have been lagging in the 'new economy', due to the structure of the German capital market, particularly the resulting shortage of venture capital.

The Eichel tax reform only took effect in 2002, and it is too early to precisely gauge its longer-term impact. But two considerations make it likely that network dissolution will occur. First, such dissolution was already well under way when the Law was enacted, and further disentanglement has occurred since then (Hoepner 2003b: 23; O'Sullivan 2003). Thus, between 1996 and 1998 alone, the holdings of non-financial companies had declined from 37.6 per cent to 30.5 per cent, and these shares seem to have been bought up by foreign investors (Deutsche Bundesbank, Gesamtwirtschaftliche Finanzierungsrechnung, quoted by O'Sullivan 2003: 16). Other activities, showing the growth of financial market liberalism, such as quotation on foreign stock markets, strong increases in takeover activity and growth in individual share ownership, all have been on the rise (ibid: 16f.). Second, it appears highly likely that the vast opportunities for gain, entailed by withdrawing under-performing ownership stakes for utilisation in more lucrative investments, will be seized by both financial and non-financial firms. Indeed, both Deutsche Bank and Allianz already have signalled their intention to follow this course of action (Heinze 2001). Such a development would further transform the system of corporate governance, leading to de-concentration of capital holdings, much increased stock market listing, new openings for foreign investment funds and hence to a market for corporate control. This would deal the death knell to the old-entrenched German system of cross shareholding and the system of insider control it has been upholding.

Pressures for convergence have come not only from capital market actors, but they also have been more or less enthusiastically embraced by a significant group of company managers. These managers' interests are better served by a transformation of the German model of corporate governance, or, alternatively, they have been socialised into a new business culture, either by managing outside Germany or by studying in US universities. The weakening of the institutions of labour, too, are part of a progressive trend. It is due to structural transformations in the German economy, such as a move towards sectors (services) and firms (small and medium-sized and 'new economy' ones) where organisation of labour is much more difficult and unions and works councils tend to be less well represented.

This transformation is not in the longer-run interest of labour, as made explicit by the German Federation of Unions (DGB) (Callaghan 2003: 16), but in the short run employees have not necessarily been averse to the new model as share ownership has been made widely available to employees at all levels of the firm. This might at least partly explain the low degree of opposition from labour against the change in corporate governance introduced. Additionally, the growing conflict between the goals of company-based industrial relations actors and industry-based unions (Hoepner 2001), together with a pronounced weakening of organised labour during the last decade or so, also explains wide-spread acquiescence. Although German labour is not yet as weak as either its British or US counterparts it seems that, in general, organization against marketization is beyond its organising capability.

Last, pressures for convergence have existed for only a relatively short period of time, starting in the mid- to late 1990s. If they have been able to unleash such fundamental change in so many areas in this short time span we must expect that many hitherto persistent features of the German variety of capitalism will be swept away during the coming decade.

IV CONCLUSIONS

The preceding theoretical analysis and empirical description of changes in the German model of corporate governance since the mid-1990s has considered both the nature and the outcomes of change. It has attempted to make evident the complexity of the change process and has shown that diffusion of change from one institutional constellation to others has occurred with a time delay. This has led to an as yet lower degree of change in the industrial relations/labour relations system than in the financial system and mode of corporate governance. This delay may be due to an absence of powerful 'drivers of change' – a role assumed by banks in the financial system.

The paper has studied the conditions which have to be fulfilled in order to diagnose either system reproduction or system transformation through convergence. There has been a particular focus on how to conceptualise the role which the notions of institutional logic and of institutional coherence or complementarity play in our understanding of change, and the discussion also has included the related notions of hybridisation and functional conversion/attainment of a new complementarity.

I have explored whether the outcome or direction of change in the German case can best be conceptualised as persistence of the model of coordinated market capitalism, adapted through functional conversion and the achievement of a new complementarity, as hybridisation, incorporating elements of both the `coordinated` and `liberal market` economy models, or as imminent convergence to the model of 'liberal market' capitalism. It has been presumed that the diffusion of a new system logic occurs at different speeds in various sub-systems and that, therefore, it is not yet equally pervasive in all of them.

The virtual consensus of previous analyses of the transformations in the German political economy has been that, despite much persistence of traditional 'coordinated market' features, change in the core area of corporate governance has been fundamental. Change has proceeded too far and is supported by too many powerful 'within system' actors to be reversible. However, in contrast to previous analyses, this paper has concluded that the typification of this process of change as either hybridisation, functional conversion and/or the establishment of a new complementarity is unhelpful. The new logic of corporate governance already is diffusing into other sections of the economy - beyond the DAX 30 firms - and to other institutional sub-systems, particularly to labour relations and utilisation and development of human resources, and this process of diffusion is bound to become more prevalent in coming decades. In this way, it eventually will lead to convergence with the Anglo-American model. Further development in the direction of convergence is not simply attributed to external constraints. It is shown to be receiving support from powerful actors within the German economy, particularly from large banks and insurance companies and from many of the large internationally oriented and listed German companies, but also from some government ministers.

The concern with a system logic has not precluded a strong focus on actors, capable of changing this logic. Actors thus have not been viewed as totally constrained by institutions. Only the opposition to the new dominant logic has been ruled out on empirical grounds, given that it is well entrenched in the financial system and that there is no strong coalition around labour opposing it.

The paper has not argued that the German variety of capitalism already has converged towards the Anglo-American type, particularly in its institutions of labour representation. It has merely identified a developmental tendency and predicts an intensification of this tendency in the coming decades. Such convergence will not entail the copying of all details of the model of liberal market capitalism, but it will involve the embracing of the underlying logic of 'shareholder value' above all else. The latter then might be implemented in a manner more congruent with German institutionalised practices. Such implementation will, however, fall short of hybridisation.

Occurrence of convergence to liberal market capitalism is not merely of theoretical interest. It will have far-reaching practical consequences, detrimental to the continued viability of the model of diversified quality production, to employees and to organised labour, as well as increasing the level of social inequality in German society. It is, therefore, important to ask whether there are any powerful or influential supporters within Germany of the *status quo* who might be able to erect buffers between the capital market and institutions of labour and industrial relations. Here the arguments of Hoepner (2001) and Beyer and Hassel (2002) carry particular weight. They point out that the German production paradigm of diversified quality production is indispensable for German international competitiveness and that it is premised on cooperative labour relations. The latter involves the continuation of active participation by labour in shaping company strategy and adherence to the high-wage/high skill model. Sorge (this volume) goes even further and claims that managers, in a more competitive environment, will become even more dependent on their highly-skilled and trustworthy employees. The question thus becomes whether the proven importance of viewing labour as a stakeholder would result in the adoption of a model which can satisfy both international investors and labour.

Hoepner (2001), Beyer and Hassel (2002) and Sorge (this volume) plead for the evolution of a new stable system. The former see this resulting from either the functional conversion of institutions of co-determination or from the emergence of a new type of enlightened investor, with expectations for the longer-term achievement of returns on investment.. I am, however, sceptical that either of the two scenarios will be sufficient or likely to restore the old model of a coordinated market economy. My pessimism about evolving a new complementarity is based on three arguments. First, it has not been shown what the basis for such a new complementarity would be, and what resources labour can utilise to preserve or re-establish stability in the sub-system. If a cooperative trust-generating inter-firm network and the long-termism it has encouraged have been greatly weakened by the transformation of corporate governance what resources can managers call on to maintain the costly training system and the co-operative style in labour relations? None of the above authors has marshalled sufficient empirical evidence to provide the necessary answer to this question.

Second, even if German managers would like to preserve the old system and its values there are developments diverting them from this goal. They may either succumb to the powerful incentives of the 'shareholder value' idea and become seduced by the new opportunities for material enrichment they offer, or they will be constrained to implement the `shareholder value` concept, even if they do not welcome it. Also following certain courses of action, such as drives for greater performance and return to core in the product portfolio, increasingly are becoming regarded as sound business practice which both structures routines and bestows legitimacy.

Last, functional conversion of the institutions of co-determination is not likely to save them as industrial relations entities, facilitating the exertion of meaningful countervailing powers. Although the structures may persist, their rationale will be changed fundamentally. (The fact that they are legally secured cannot, as Deeg (this volume) claims, prevent this development. They will no longer be an avenue through which labour may exert a significant amount of insider control - the feature which has long endowed the German variety of capitalism with its distinctive character.

But the future is never as closed as my pessimistic prognosis makes it appear, and events may occur to halt or reverse the convergence process. Given the lingering strength of cultural values and social institutional embeddedness of the German model, as well as the absence of a clear policy direction which endorses the 'liberal market' model, there may yet emerge a coalition of industrial managers, employees and politicians working for a new as yet inchoate compromise solution. Particularly among politicians in both main parties (the Social-Democratic Party (SPD) and the Christian Democratic Union (CDU)) there is not yet any consensus (Hoepner 2003a), nor a coherent strategy on the structure of economic institutions and the future direction of the economy. Also the blocking by German MEPs of a liberal takeover directive has shown that support in Germany for 'free market' policies is by no means universal or guaranteed. (The inconsistency in German employers' thinking on various aspects of a liberal market is highlighted by Callaghan (2003: 19). This, in theory, leaves open the possibility of a restoration of the old model through the building of a coalition at the macro level against free-market policies and the erection of protective barriers between institutional complexes. At the present time, however, the emergence of such a coalition cannot be detected. At the micro level, continually shifting shorter-term alliances between investors, managers and labour are more notable (Hoepner 2001: 27).

Alternatively, the occurrence of powerful external shocks might stall or reverse the convergence process, and this might lead to a consolidation of the anti-liberal economic and political faction. A chance for a halting or reversal of the convergence process lies in a strong and persistent de-legitimation of the Anglo-American system of corporate governance, or in a process of its convergence to the model of 'co-ordinated market economies'. 'Stock market' capitalism, since the collapse of the high-tech boom and of share prices more generally, is no longer as popular as it was during the 1990s. Additionally, the 'Enron' syndrome has dented the faith in the US system of corporate governance, although the enactment of the Sarbanes-Oxley Act already has begun to restore investor confidence.

What are the chances for such developments occurring? Although some softening at the edges of the UK model in particular has been noted (Pendleton and Gospel 2003; Vitols 2003) a convincing case for convergence towards the model of a 'co-ordinated market economy' is still outstanding. Despite wide-spread disillusionment with the 'shareholder value' maxim, it would be premature to diagnose the demise of the liberal market economy. The renewed emergence of a wave of cross-border acquisitions and mergers suggests continuing reliance on and importance of the stock market. Thus, in conclusion, one cannot rule out a reversal of the process of system convergence in Germany, but at the current time there is no solid evidence that such a process is under way.

REFERENCES

Becker, S. (2001). Einfluss und Grenzen des Shareholder Value. Strategie- und Strukturwandel deutscher Grossunternehmen der chemischen und pharmazeutischen Industrie. Peter Lang ,Frankfurt a. Main.

Berger, S. and Dore, R. eds. (1997). National Diversity and Global Capitalism. OUP, Oxford.

Beyer, J. and Hassel , A. (2002). The market for corporate control and financial internationalization of German firms. Economy and Society, 31.

Biggart, N.W. and Guillen, M. F. (1999). Developing difference: social organization and the rise of the auto industries of South Korea, Taiwan, Spain, Argentina. American Sociological Review, 64, 5: 722-747.

Callaghan, H. (2003). 'Battle of the systems or multi-level game? Domestic sources of Anglo-German quarrels over EU takeover law and worker consultation'. Paper presented at the 15th Annual Conference of the Association for the Advancement of Socio-Economics. Aix-en-Provence, 27-29 June 2003.

Crouch, C. and Streeck, W. (eds.) (1997). Political Economy of Modern Capitalism. Mapping convergence and diversity. Sage, London.

Deakin, S., Hobbs, R., Nash, D. and Slinger, G. (2002). Implicit Contracts, takeovers, and Corporate Governance in the Shadow of the City Code. Working Paper 254, ESRC Centre for Business Research, University of Cambridge. December.

Deeg , R. (2001), 'Institutional change and the uses and limits of path dependency: the case of German finance'. 01/06. Unpublished paper, posted on web site www.mpli-fg-Koeln.mpg.de.

Deeg, R., this volume. Exploring path dependency and institutional chang in national business systems'.

Faust, M., Jauch,P. and Notz, P. (2000), Befreit und entwurzelt: Fuehrungskraefte auf dem Weg zum 'internen Unternehmer'. Rainer Hampp Verlag, Muenchen and Mehring.

Hall, P. and Soskice, D. (2001), Varieties of Capitalism, OUP, Oxford.

Hancke, B. and Goyer, M. , this volume, Degrees of freedom. Rethinking the institutional analysis of economic change.

Heinze , T. (2001), Transformation des Deutschen Unternehmenskontroll-Systems? Koelner Zeitschrift f. Soziologie und Sozialpsychologie, 53, 4: 641-674.

Hoepner, M. (2001). Corporate governance in transition: ten empirical findings on shareholder value and industrial relations. Discussion Paper 01/5, Max-Planck-Institut für Gesellschaftsforschung, Cologne.

Hoepner, M. (2003a), European corporate governance reform and the German party paradox.' Discussion Paper 2003/04, Max-Plank-Institut für Gesellschaftsforschung/ Cologne.

Hoepner, M. (2003b). The Politics of the German Company Network. Paper presented at the 15th Conference of the Society for the Advancement of Socio-Economics, Aix-en-Provence, 27-29 June, 2003.

Hoepner, M. and Jackson, G. (2001) An emergent market for corporate control? The Mannesmann takeover and German corporate governance. MPIfG Discussion Paper 01/4, Cologne: MPIf.G.

Hoepner, M. and Jackson, G., (2002) Das deutsche System der Corporate Governance zwischen Persistenz und Konvergenz. Replik auf den Beitrag von Thomas Heinze in Heft 4/2001 der KZfSS. Koelner Zeitschrift f. Soziologie und Sozialpsychologie, 54, 2: 362-368.

Hollingsworth, J. R. and Boyer, R. eds. (1997). Contemporary Capitalism. The embedded-ness of institutions. Cambridge University Press, Cambridge.

Juergens, U. et al 2000, 'Shareholder value in an adverse environment: the German case', Economy and Society, 29, 1: 54-79.

Kaedtler, J. and Sperling, H.-J. (2003). Globalization and financialization as triggers for enterprise reorganisation and the impact on industrial relations. SOFI-Mitteilungen. 31, July: 53-66.

Kitschelt, H., Lange, P., Marks, G. and Stephens, J. eds. (1999). Continuity and Change in Contemporary Capitalism. Cambridge University Press, Cambridge.

Kurdelbusch, A. (2001). The Upswing of Variable Pay in Germany – Evidence and Explanations'. Unpublished paper. Max-Planck-Institut für Gesellschaftsforschung. Cologne.

Lane, C. (1989). Management and Labour in Europe. Edward Elgar, Aldershot.

Lane, C. (1992). European business systems: Britain and Germany compared in R. Whitley ed., European Business Systems. Firms and Markets in their National Contexts. Sage, London.

Lane C. (1995). Industry and Society in Europe. Stability and Change in Britain, Germany and France. Aldershot: Edward Elgar.

Lane, C. (2000). Globalization and the German model of Capitalism – erosion or survival? The British Journal of Sociology, 51, 2: 207-234.

Lane, C. and Quack, S. (2001). How banks construct and manage risk. A sociological study of small firm lending in Britain and Germany. Working Paper 217, Centre for Business Research, University of Cambridge.

Luetz, S. (2000). From managed to market capitalism? German finance in transition. German Politics. 9: 149-171.

Mahoney, J. (2001). Path dependence in historical sociology. Theory and Society. 29: 507-48.

Mayer, C. (2000). 'Corporate Governance in the UK', Hume Papers on Public Policy, 8, 1: 1-9.

Morgan, G. and Kubo, I. (2002). 'Beyond path dependency? Constructing new models for institutional change: the case of capital markets in Japan'. Paper presented at the 18th EGOS Colloquium, Barcelona, July 2002.

Morin, F. (2000). A transformation in the French model of shareholding and management, Economy and Society, 29, 1: 36-53.

Mueller-Jentsch, W. ed. (1993). Konfliktpartnerschaft. Akteure und Institutionen der industriellen Beziehungen. Rainer Hampp Verlag, Muenchen und Mehring.

O'Sullivan, M.A. (2000). Contests for Corporate Control. Corporate governance and economic performance in the United States and Germany. Oxford University Press, Oxford.

O'Sullivan, M. 2003, 'The political economy of comparative corporate governance'. Unpublished manuscript.

Pendleton, A. and Gospel, H. (2003). 'Markets and Relationships: finance, government and labour in the United Kingdom'. Paper presented to the 15th Annual Conference of the Society for the Advancement of Socio-Economics. Aix-en-Provence, 27-29 June 2003.

Dimaggio, P. and Powell (1991), 'Introduction', in Powell, W. and DiMaggio, P.eds. The New Institutionalism in Organizational Analysis, pp. 1-38. Chicago: University of Chicago Press.

Sorge, A. (2003). Systemic perspectives on business practices and institutions. A plea beyond comparative statics.

Streeck, W. (2001). The transformation of corporate organization in Europe: an overview. MPIfG Working Paper 01/8, December 2001. MPIfG/Cologne/Germany.

Thelen, K. (2000). Timing and temporality in the analysis of institutional evolution and change, Studies in American Political Development, 14, 1: 101-108.

Vitols, S., Casper, S. Soskice, D. and Woolcock, S. (1997). Corporate governance in large British and German companies. Anglo-German Foundation, London.

Vitols, S. (2001). Viele Wege nach Rom? BASF, Bayer und Hoechst. Unpublished paper. Wissenschaftszentrum Berlin/Germany.

Vitols, S. (2003). Konflikt oder Annaeherung. Corporate Governance in Deutschland. WZB-Mitteilungen, 100, June 2002: 41-44.

Whitley, R. ed. (1992). European Business Systems. Firms and markets in national context. Sage, London.

Whitley, R. (1999). Divergent Capitalisms. The Social Structuring and Change of Business Systems. Oxford University Press, Oxford.

Windolf, P. (2000). Corporate Networks in Europe and the United States. Oxford University Press, Oxford.

Zugehoer, R. (2001). 'Capital market, codetermination and corporate restructuring. A comparative study of Siemens and Veba'. Paper presented at the 13th Annual Meeting of the Society for the Advancement of Socio-Economics, Amsterdam, 28 June-1 July.

Biographical Note

Christel Lane studied sociology at the University of Essex and the London School of Economics and Political Science. She currently is a Reader in Economic Sociology at the University of Cambridge and a Fellow of St. John's College. She is the author of *Industry and Society in Europe. Stability and Change in Britain, Germany and France*. Edward Elgar 1995 and the co-editor of *Trust within and between Organizations* . Oxford University Press 1998.

Her current research is on the responses to globalisation of internationalised firms in Britain, the US, Germany and Japan. This project, undertaken jointly with scholars from MIT's Industrial Performance Centre and the Centre for Excellence, Toshiba University, Kyoto, Japan, is financed by the Cambridge MIT Institute. The research based on interviews with top-level managers in the pharmaceutical, clothing and book publishing industries, focuses on the organisation of the value chair, particularly on what activities are performed in-house and which are outsourced. In this context, changes in organisation scope, as well, as related locational decisions, are of particular interest. The theoretical interest is whether firms, situated in different varieties of capitalism, make divergent responses to globalisation and/or whether and how these might impact on their competitiveness.

Author: Christel Lane

Title: Institutional Transformation and System Change: Changes in Corporate Governance of German Corporations

Reihe Soziologie / Sociological Series 65

Editor: Beate Littig
Associate Editor: Gertraud Stadler

ISSN: 1605-8011

Stumpergasse 56, A-1060 Vienna • ☎ +43 1 59991-0 • Fax +43 1 59991-555 • http://www.ihs.ac.at

ISSN: 1605-8011